August 7, 2024
Isuzu Motors Limited

Q&A Summary of the Explanatory Session for Institutional Investors and Analysts for 1Q of FY ending March 2025

【Greetings from Yamaguchi EVP】

As for the results of the first quarter, in terms of volume, LCV unit sales in Thailand fell to a low level not seen in recent years due to the deterioration of the market environment as well as ongoing inventory reduction by dealers and distributors. Sales decreased from the same period of the prior year due largely to the impact of the decline in the unit sales, while all profit levels were record-high for the first quarter due mainly to the positive impacts of the weaker yen, despite the decline in the unit sales. Other than the exchange rate impact, unit sales, price realization, and cost reduction activities, among other things, are, by and large, at the level expected at the beginning of the fiscal year.

Regarding the unit sales outlook, the conditions of LCV market in Thailand remains severe, and there are no signs of recovery. Although a gradual demand recovery in the latter half was anticipated at the beginning of the fiscal year, forecast was revised downward by 30,000 units from 90,000 units to 60,000 units, since it is difficult to see how the situation improves this year. Profit and loss, on the other hand, exceeded our initial outlook in the first quarter due to the weaker yen, but the full-year outlook remains unchanged because of the uncertain foreign exchange environment, the downward revision made to the LCV unit sales, and the risk of profit decline due to further increases in material costs, among other things.

As for new launches in Japan, *Elga EV*, a battery-powered EV route bus, was released in May, and *ELF mio (new ELF series)*, a small diesel truck that can be driven with an ordinary license, was brought out to the market at the end of July. Also, the launch of small battery EV trucks is slated to start in North America this month, underlying our well-managed multi-pathway product strategy.

Last but not least, as announced today, our plan is to buy back shares up to 75.0 billion yen. All the acquired shares will then be cancelled. Although the business environment is continuously changing, our growth scenario for 2030 presented in the mid-term business plan remains solid. Going forward, we will continue conducting share repurchases proactively while maintaining an appropriate level of shareholders' equity.

[Q & A]

<Result of 1Q of FY ending March 2025 >

Q: High operating profit was recorded in the first quarter even with the difficulty in securing Thai LCV volume. How much was it deviated from your internal forecast?

A: In terms of unit sales, both CV and LCV, even with a significant volume drop in Thai LCV, remained in line with the plan. The profit and loss exceeded our expectations by approximately 12.0 billion yen, mainly driven by 10.0 billion yen gained from the yen being significantly weaker than our assumption. In addition, a delay in expenses payments contributed to the overall result, leading to the highest-ever quarterly profit for 1Q.

Q: Regarding profit and loss by geographic region, please describe the reasons for the improvement of profit margin in *Asia* and *other regions* where LCV shipments were slowing down.

A: In both regions, the impact of foreign exchange rates has been significant. In *Asia*, LCVs exported from Thailand to Australia, Middle East, etc. are profitable because the Thai baht depreciated against the Australian dollar and the US dollar. In addition, the effect of weaker yen contributed positively to our subsidiaries in Malaysia, Vietnam and other countries since they import in yen terms and sell them in local currencies.

As for *other regions*, not only North America, where the unit sales are expanding, but also our subsidiaries in Mexico and other countries are improving their profit margins thanks to the effects of the yen's depreciation.

< Forecast for FY ending March 2025 >

Q: Due to the downward revision of Thai LCV unit sales, profit is expected to decrease by more than 10.0 billion yen. How are you going to offset such impact to achieve the full-year plan?

A: As for risks, in addition to the decline in Thai LCV unit sales, the rise in material costs is another expected negative factor. The conversation with our partnering suppliers was centered around the need for wage increases resulting in labor cost increases, and we will respond to their request for price increases, which are likely to exceed our expectations. There is no change in our plan to pass this on to selling prices, but the first thing we will do this fiscal year is to reflect this in our costs. On the other hand, in terms of business opportunities, in Japan CV orders are steadily coming in thanks to a full portfolio of new models. As for *ELF mio* (new ELF series) which was just launched recently, the number of negotiations and visits to the online site are on the increase. With respect to after-sales business, we expect growth mainly in Japan, and the full-year plan remains unchanged as we aim to offset risks by overall gains.

Q: Please describe your operating profit forecast for 2Q (July to September), including a comparison with the same period last year.

A: The initial forecast for the first half was 105.0 billion yen out of the full-year forecast of 260.0 billion yen, and we forecast 65.0 billion yen in 1Q and 40.0 billion yen in 2Q. Costs are usually higher in 2Q and 4Q of the year, and the same situation is expected this year. Against the 1Q forecast of 65.0 billion yen, the net result outperformed by 10.0 billion yen from the impact of the depreciation of the yen and 2.0 billion yen from some expenses to be incurred at a later time. In contrast, we don’t expect large fluctuations in the 2Q forecast of 40.0 billion yen at this point in time, since we think that the exchange rate will be flat and that the LCV unit sales are expected to be roughly the same as the initial forecast.

Compared to the same period of the previous fiscal year, profit is expected to decrease due to the anticipated drop in LCV unit sales in both Thailand and export markets and an increase in development costs.

<CV Business >

Q: The registered number of CVs for Japan market up to July remained at the same level as the previous fiscal year. How will you increase unit sales to achieve the full-year target of 86,000 units?

A: Although the first quarter saw a slight delay in shipment and body building due to quality refinement executed at the end of the previous fiscal year, the registered units are in line with our expectations, and production is progressing steadily. Orders for light- and medium-duty trucks are coming in at a steady pace, and we have been receiving many requests for negotiation about ELF mio (new ELF series). We expect to achieve the target as planned by increasing unit sales from the second quarter onward.

Q: Tell us about the overseas CV market trends.

A: The market conditions in North America and the Middle East are robust. Meanwhile in Indonesia, unit sales are expected to be lower than initial forecast as it is uncertain whether public investment after the presidential election can restore the market conditions. Also in Thailand, market conditions are less favorable than expected, so we will need to revise the outlook of unit sales for the second half plan.

Q: What is the background of introducing EV trucks to the North American market and what are the current market conditions?

A: With NOx regulations becoming more stringent in California and other states, we will gradually shift from our product portfolio from diesel engines to gasoline engines and will add EVs to the lineup in parallel. Light-duty EVs will be shipped from Japan as complete build-up, and medium-duty ones will be assembled in the U.S. using Cummins batteries.

For CV Business, we do not anticipate that shift from engine-powered vehicles to EVs will rapidly advance, and we will aim to steadily increase penetration of EVs in accordance with regulations. Although the implementation timing of the regulations may change, we will develop the product lineup with an eye on the gradual and long-term transition towards the penetration of EVs.

< LCV business >

- LCV unit sales for the Thai market -

Q: Regarding the LCV unit sales for the Thai market, the full-year sales outlook is 60,000 units, compared to 7,000 units sold in the first quarter. Is it possible to achieve the outlook? Are you pricing in some degree of market recovery?

A: Inventory reductions by dealers in the first quarter resulted in a significant drop in vehicle shipments. In the latter half of this fiscal year, as dealers will normalize their inventory levels, vehicle shipments are expected to normalize as well. Therefore, the revised full-year unit sales of 60,000 units are an outlook we consider achievable even if the current severe market conditions continue.

As for the timing of a market recovery in Thailand, although there are hopes for the success of Thai government's economic stimulus measures, the effects have not been felt recently, and we hope that the market starts to recover in the latter half of the next fiscal year.

Q: Please explain the inventory situation at the distributor and dealers, and how inventory reduction will be implemented from the second quarter onward.

A: The dealer inventory fell to 25,800 units at the end of June from 38,500 units at the end of March. Although the inventory decreased due to the reduction of shipments from the manufacturing plants, the retail unit sales were also lower than expected. Therefore, the vehicle inventory and inventory turnover period in months were not adjusted as much as expected. We originally anticipated to complete the inventory reduction in the first half of this fiscal year, but the delay in demand recovery will assumingly prolong the inventory reduction until the third quarter.

Q: Please explain the plant utilization situation at your plants in Thailand.

A: Samrong Plant and Gateway Plant operate at a low utilization rate. Gateway Plant currently operates on a one-shift basis. We originally intended to change the shift from one-shift operation to two-shift operation at the end of September, but the one-shift operation is expected to continue through December due to the downward revision in unit sales. We have taken a flexible approach towards labor as much as we can to keep the loss costs down.

- LCV unit sales for export markets -

Q: Please explain the market trends in LCV export.

A: Although there are no major changes from the initial outlook at the beginning of this fiscal year, the unit sales in Egypt is slightly higher than expected as the impact of foreign currency regulations have calmed down, while the unit sales in South Africa and Tunisia are slightly lower than expected. In Oceania, the unit sales increased in the previous fiscal year due to fulfillment of backorders but has remained at the normal level in the current fiscal year. We are now at the stage of assessing future trends to formulate a plan for the second half of this fiscal year.

< Shareholder returns >

Q: What was the background to your decision to acquire treasury stock, which amounts to 75.0 billion yen and leads to a total return ratio of 90%?

A: In spite of the appreciating yen and the stock market's turbulence, we confirmed that we could take on the improvement of capital efficiency as originally envisaged and invest in the existing and new businesses in accordance with the financial policy set out in the mid-term business plan announced recently, while maintaining financial soundness. Although we are still in the first quarter of the year, we decided to announce our determination sooner rather than later.

< Strategic shareholdings >

Q: There have been a series of media reports about strategic shareholdings of other companies. Please share your policy of strategic shareholdings.

A: We ensure to periodically review the benefits against capital costs and the significance of holding strategic shares, and if the significance of holding such shares is lost, we will reduce our holdings. Our current strategic shareholdings are mainly held from the perspective of business strategy, but if the significance of the shareholdings is lost, we will take measures after consultation with our business partners with a view to reducing such holdings.

Our understanding is that our shares held by other companies are being sold in stages, but the transaction scale does not require any special attention, and we are accepting them in a matter-of-fact way.

< Others >

Q: How will you roll out the connected service overseas?

A: Starting with North America, we plan to align it with EV expansion in advanced countries. In regard to aftersales business focused on overseas markets, we intend to further strengthen the steady initiatives we have diligently made to date, rather than offer a full portfolio of connected services.